

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Battle Creek Police and Fire Pension	County Calhoun
Fiscal Year End June 30, 2006	Opinion Date November 1, 2006	Date Audit Report Submitted to State November 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

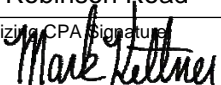
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Single letter for the City of Battle Creek		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE
RETIREMENT SYSTEM**

**Financial Statements
And
Supplementary Information**

**For the Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

**CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM**

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

November 1, 2006

To the Retirement Board
City of Battle Creek, Michigan
Police and Fire Retirement System
Battle Creek, Michigan

We have audited the accompanying statement of plan net assets of the ***City of Battle Creek, Michigan Police and Fire Retirement System*** as of June 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Battle Creek, Michigan Police and Fire Retirement System pension trust fund and do not purport to, and do not present fairly the financial position and the changes in financial position of the City of Battle Creek, Michigan in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Battle Creek, Michigan Police and Fire Retirement System as of June 30, 2006 and the changes in plan net assets thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The historical pension information listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

FINANCIAL STATEMENTS

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
Statement of Plan Net Assets
June 30, 2006

Assets

Cash and cash equivalents		\$ 3,880,847
Investments:		
U.S. treasuries	\$ 7,054,174	
U.S. agencies	13,271,995	
Domestic corporate securities	15,766,422	
Domestic equities	44,427,646	
American depository receipts	14,251,688	
International equities	3,074,664	
Total investments		97,846,589
Interest receivable		455,641
Pension contributions receivable		90,979

**Net assets held in trust for pension and
postemployment healthcare benefits**

\$ 102,274,056

(A schedule of funding progress for the pension plan is presented on page 10.)

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2006

Additions

Investment income:

Net realized and unrealized appreciation in fair value of investments	\$ 3,563,616
Interest and dividends	6,035,795
Less investment expenses	<u>(1,311,421)</u>
Net investment income	<u>8,287,990</u>

Contributions:

Employer	3,108,229
Employees	<u>979,497</u>
Total contributions	<u>4,087,726</u>
Total additions	<u>12,375,716</u>

Deductions

Pension benefit payments	6,166,401
Contribution refunds	105,665
Medical insurance premiums	1,679,023
Administrative expenses	<u>28,543</u>
Total deductions	<u>7,979,632</u>

Net additions (deductions) to net assets held in trust for benefits

Employees' pension benefits	\$ 5,358,687	
Postemployment healthcare benefits	<u>(962,603)</u>	4,396,084
Net assets held in trust for benefits, beginning of year		<u>97,877,972</u>

Net assets held in trust for benefits, end of year

Restricted for employees' pension benefits	101,793,640	
Restricted for employees' postemployment healthcare benefits	<u>480,416</u>	<u>\$ 102,274,056</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

1. PLAN DESCRIPTION

The City of Battle Creek, Michigan Police and Fire Retirement System (the “System”) is a single-employer defined benefit contributory pension plan which provides retirement, disability, death and postemployment healthcare benefits to plan members and their beneficiaries in accordance with the City of Battle Creek’s (the “City”) pension ordinance. The System covers all police and fire employees of the City of Battle Creek.

System membership consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	202
Terminated employees entitled to but not yet receiving benefits	5
Vested and non-vested active participants	<u>199</u>
Total	<u>406</u>

Plan members are required to contribute between 7.5% and 10% of their annual covered salary to the System for pension benefits, depending on bargaining unit. The City contributes such additional amounts as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. The City’s pension contribution for the year ended June 30, 2006 represented 18.91% of the annual covered payroll; the contribution for healthcare benefits represented 5.0% of annual covered payroll.

The System is administered by the Retirement Board of the City of Battle Creek, Michigan Police and Fire Retirement System. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the Retirement Board and City of Battle Creek City Commission.

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuation of Investments and Income Recognition - The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages, if any, are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, if any, is based on independent appraisals. Investments that do not have established market values are reported at estimated fair value.

Administration - Administrative costs are financed through the System's investment earnings.

3. DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Deposits - The System does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net assets are composed entirely of short-term investments in money market accounts.

Investments - The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the System to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations. The Retirement Board has the responsibility and authority to oversee the investment portfolio. Various professional investment managers are contracted to assist in managing the System's assets. All investment decisions are subject to Michigan law and the investment policy established by the Retirement Board.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

The System's investments are held in a bank-administered trust fund. Following is a summary of the System's investments as of June 30, 2006:

Investments at fair value, as determined by quoted market price:	
U.S. treasuries	\$ 7,054,174
U.S. agencies:	
Not on securities loan	7,249,438
On securities loan	6,022,557
Domestic corporate securities:	
Not on securities loan	15,357,993
On securities loan	408,429
Domestic equities:	
Not on securities loan	32,969,753
On securities loan	11,457,893
American depository receipts	14,251,688
International equities	<u>3,074,664</u>
Total investments	<u>\$ 97,846,589</u>

In addition to the above, the System has short-term investments of \$3,880,847 as of June 30, 2006 held entirely in money market funds.

Credit Risk. The System's investment policy provides that its investments in fixed income securities be limited to those rated BBB or better by a nationally recognized statistical rating organization. As of June 30, 2006, the System's investments in securities of U.S. agencies were all rated AAA by Standard & Poor's. The System's investments in corporate securities were rated by Standard & Poor's as follows:

AAA	\$ 2,113,923
AA	2,232,314
A	8,481,988
BBB	2,711,354
BB	41,844
NR	<u>184,999</u>
	<u>\$ 15,766,422</u>

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in trust by a third-party institution in the System's name. As such, although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the System's name.

Short-term investments in money market funds are not subject to custodial credit risk.

Concentration of Credit Risk. At June 30, 2006, the U. S. agencies investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal National Mortgage Association	66.0%
	Federal Home Loan Mortgage Corporation	31.4%

The System's investment policy requires that the securities of any one company or government agency should not exceed 10% of the total fund and no more than 25% of the total fund should be invested in any one industry.

Interest Rate Risk. As of June 30, 2006, maturities of the System's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. treasuries	\$ 7,054,174	\$ -	\$ 1,876,821	\$ 4,112,728	\$ 1,064,625
U.S. agencies	13,271,995	-	2,938,316	1,403,932	8,929,747
Domestic corporate securities	15,766,422	2,291,465	8,553,990	1,606,667	3,314,300
Total debt securities	<u>\$ 36,092,591</u>	<u>\$ 2,291,465</u>	<u>\$ 13,369,127</u>	<u>\$ 7,123,327</u>	<u>\$ 13,308,672</u>

Of the above balances, \$584,864 of U.S. agencies securities are callable.

CITY OF BATTLE CREEK, MICHIGAN

Police and Fire Retirement System

Notes To Financial Statements

The System's investment policy provides that the maximum maturity for any single fixed income security is ten years and that the weighted average portfolio maturity may not exceed eight years.

Securities Lending. A contract approved by the System's Board, permits the System to lend its securities to broker-dealers and banks (borrowers) for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. Collateral cash is initially pledged at 100 percent of the fair value of the securities lent, and may not fall below 100 percent during the term of the loan. There are no restrictions on the amount of securities that can be loaned. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

4. ANNUAL REQUIRED CONTRIBUTION

The City's annual required contribution cost for the year ended June 30, 2006, was \$2,458,298 for pension benefits and \$649,931 for postemployment healthcare benefits. The City made these required contributions totaling \$3,108,229 and has no retirement benefit obligation.

The annual required contribution for the year ended June 30, 2006 was determined as part of an actuarial valuation of the System as of June 30, 2004 using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 4.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will not increase after retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a period of 10 years.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System

Notes To Financial Statements

5. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts, errors and omissions. The System participates in the City of Battle Creek's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss limits. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

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GASB REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BATTLE CREEK, MICHIGAN
Police and Fire Retirement System
Required Supplementary Information

Schedule of Funding Progress - Pension Only

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Over (Under) Funded AAL (OAAL/UAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL/UAAL as a % of Covered Payroll
6/30/1996	\$ 65,885,237	\$ 66,859,894	\$ (974,657)	98.5%	\$ 9,834,167	-9.9%
6/30/1997	72,134,308	71,456,325	677,983	100.9%	10,039,322	6.8%
6/30/1998	79,796,431	74,796,184	5,000,247	106.7%	9,813,441	51.0%
6/30/1999	87,617,793	78,285,848	9,331,945	111.9%	9,749,682	95.7%
6/30/2000	95,548,441	83,980,778	11,567,663	113.8%	11,235,312	103.0%
6/30/2001	101,190,705	87,909,496	13,281,209	115.1%	11,615,098	114.3%
6/30/2002	103,950,731	95,368,883	8,581,848	109.0%	11,907,553	72.1%
6/30/2003	103,655,770	100,346,606	3,309,164	103.3%	11,855,130	27.9%
6/30/2004	103,745,735	104,336,169	(590,434)	99.4%	12,114,360	-4.9%
6/30/2005	102,755,663	110,487,311	(7,731,648)	93.0%	12,085,192	-64.0%

Schedule of Employer Contributions - Pension Only

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1997	\$ 1,672,926	100%
1998	1,908,106	100%
1999	1,337,217	100%
2000	1,059,179	100%
2001	732,366	100%
2002	622,566	100%
2003	468,005	100%
2004	1,268,053	100%
2005	1,824,879	100%
2006	2,458,298	100%